

Message Text

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ACTION AF-10

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FM AMEMBASSY GABORONE

TO SECSTATE WASHDC 9769

INFO AMCONSUL CAPE TOWN

AMCONSUL JOHANNESBURG

AMEMBASSY MASERU

AMEMBASSY MBABANE

AMEMBASSY PRETORIA

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CAPE TOWN FOR EMBASSY

DEPARTMENT PASS OPIC

E.O. 11652: N/A

TAGS: EFIN, EAID, EINV, BC

SUBJECT: BOTSWANA: VICE PRESIDENT'S FISCAL YEAR 1977/1978

BUDGET SPEECH

1. BEGIN SUMMARY: VICE PRESIDENT MASIRE'S ANNUAL BUDGET MESSAGE OF MARCH 7 EMPHASIZED GOB'S CONTINUATION OF RESPONSIBLE FISCAL POLICY OF BALANCING REVENUES AND EXPENDITURES. CONCERNING DEVELOPMENT, EMPHASIS WOULD CONTINUE ON RURAL AREAS RATHER THAN TOWNS. FOREIGN EXCHANGE RESERVES WERE FIXED AT A HEALTHY EQUIVALENT OF PULA 65 MILLION AND THE GOB WOULD REALIZE A PULA 20 MILLION SURPLUS OF REVENUES OVER EXPENDITURES DURING FINANCIAL YEAR 1977/1978. A COMPREHENSIVE LIMITED OFFICIAL USE

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TAX REFORM WOULD BOTH REDUCE PERSONAL TAX RATES AND REDUCE THE WRITE OFF PERIOD FOR MINING CAPITAL EXPENDITURE. MASIRE ALSO ANNOUNCED THAT FEES FOR TSWANA MEDIUM PRIMARY SCHOOLS WOULD BE ABOLISHED BY 1980. END OF SUMMARY.

2. DESPITE GLOOMY BUT RELATIVELY BRIEF MENTIONS OF THE NEED TO DIVERT PUBLIC FUNDS INTO DEFENSE SPENDING, THE WIDENING

GAP BETWEEN THE DEVELOPED AND THE LESS DEVELOPED COUNTRIES, THE RAVAGES OF INFLATION AND THE TWELVE PERCENT RISE IN THE COST OF LIVING FOR 1976, VICE PRESIDENT MASIRE'S MARCH 7 BUDGET ADDRESS WAS ON THE WHOLE, UPBEAT AND EMPHASIZED CONTINUITY WITH A SUCCESSFUL PAST. MAJOR POINTS WERE:

A. BOTSWANA WOULD CONTINUE RESPONSIBLE FISCAL POLICY OF BALANCING REVENUES AND EXPENDITURES.

B. DEVELOPMENT: EMPHASIS CONTINUES ON RURAL OVER URBAN DEVELOPMENT. TWO THIRDS OF THE PULA 54 MILLION TO BE SPENT IN FINANCIAL YEAR 1977/1978 WOULD COME FROM EXTERNAL SOURCES. DONORS WERE THANKED WARMLY.

C. MINERALS: MASIRE CREDITED DIAMONDS WITH BRINGING GOB PULA 36 MILLION 1976/1977, HOWEVER, SELEBI-PIKWE WAS STILL AILING AND SEARCH WAS CONTINUING FOR SUA PAN DEVELOPER AFTER NEGOTIATIONS WITH A US COMPANY FELL THROUGH.

D. PARASTATAL ORGANIZATIONS: BRIGHT SPOTS WERE THE RECORD KILL AND HIGH PRODUCER PRICES CREDITED TO THE BOTSWANA MEAT COMMISSION, THE PROJECTED CONSTRUCTION OF 800 LOW COST DWELLINGS BY THE BOTSWANA HOUSING CORPORATION. TARGETS FOR CRITICISM INCLUDED THE FINANCIAL DIFFICULTIES OF THE BOTSWANA LIVE-STOCK DEVELOPMENT CORPORATION AND MANAGEMENT PROBLEMS AT THE POWER CORPORATION, WHICH HAD FAILED IN PROGRESS TOWARD CONSTRUCTION OF A COAL POWER PLANT FOR GABORONE. CHIEF VILLAN WAS INFLATION, WHICH HAD RAISED COSTS OF MATERIALS AND NECESSITATED PAINFUL COST INCREASES FOR POWER, LIMITED OFFICIAL USE

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WATER AND RENTAL RATES.

E. CURRENCY AND FOREIGN RESERVES: MASIRE DREW A HEALTHY PICTURE. PULA 14 MILLION WAS IN CIRCULATION AT CLOSE OF 1976 AND HOLDINGS OF PULA 65 MILLION CONSTITUTED FOREIGN EXCHANGE RESERVES.

*. EXPENDITURE GROWTH RATES: ALTHOUGH HE GAVE NO SPECIFIC NEW FIGURE, MASIRE SAID THAT THE PROJECTION OF A NINE PERCENT PER ANNUM GROWTH IN RECURRENT BUDGET WOULD BE ADVERSELY AFFECTED BY A PULA 9 MILLION SHORTFALL IN ANTICIPATED CUSTOMS AND EXCISE REVENUES FOR 1977/1978 (ALTHOUGH CUSTOMS AND EXCISE REVENUES WILL BE PULA 26 MILLION OVER 1976/1977 PERIOD).

G. RECURRENT REVENUES AND EXPENDITURES: 1977/1978 WOULD SHOW A TWENTY MILLION SURPLUS OF REVENUES (PULA 94.2 MILLION) OVER EXPENDITURES WHICH COULD BE ATTRIBUTED TO INCREASING CUSTOMS UNION AND DIAMOND MINE RECEIPTS. HOWEVER, MASIRE CAUTIONED THAT THE TREND IN A SURPLUS MIGHT NOT BE SUSTAIN-

ABLE BECAUSE OF DETERIORATING POLITICAL CONDITIONS IN SOUTHERN AFRICA.

I. FINANCIAL LEGISLATIVE PROGRAM: PROGRAM WOULD INCLUDE A COMPREHENSIVE TAX REFORM SO THAT TAXATION COULD BE USED TO "ENCOURAGE RATHER THAN IMPEDE DEVELOPMENT", I.E. PERSONAL TAX RATES WOULD BE REDUCED TO FOSTER INCENTIVE AND THE WRITE-OFF PERIOD FOR MINING CAPITAL EXPENDITURE WOULD BE REDUCED FROM THIRTY TO TEN YEARS. MASIRE SAID THAT THE GOVERNMENT VIEWED THIS LAST PROPOSAL AS A CLEAR INDICATION THAT IT IS LOOKING FOR LARGE SCALE INVESTMENT IN MINING DEVELOPMENT. IN ADDITION, LEGISLATION WOULD BE INTRODUCED TO FACILITATE COMMERCIAL BANK LENDING.

3. MASIRE TOOK THE OCCASION TO ALSO ANNOUNCE THE GOVERNMENT'S INTENTION TO ABOLISH SCHOOL FEES AT TSWANA MEDIUM PRIMARY SCHOOLS BY 1980.

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4. BEGIN LIMITED OFFICIAL USE: COMMENT: BOTH TONE AND CONTENT OF VICE PRESIDENT MASIRE'S BUDGET REPORT (COPY POUCHED TO WASHINGTON) WERE OPTIMISTIC AND FORWARD LOOKING. SO MUCH SO THAT SOME OBSERVERS WERE A BIT PUT OFF BY THE TIMING, E.G. THAT A CHEERING MESSAGE OF BUDGETARY STABILITY (PULA 20 MILLION SURPLUS AND TAX CUTS WOULD COME AT THE MOMENT WHEN SOUTHERN AFRICAN CRISES WERE SUPPOSED TO BE THREATENING THE VERY EXISTENCE OF BOTSWANA. AS THE EEC REP TO THE BLS STATES COMMENTS PRIVATELY, THE BUDGET DID NOT SHOW STRAIN -- WHICH IT MIGHT HAVE DONE IF MASIRE HAD WANTED SOMETHING MORE FROM THE DONORS. NEVERTHELESS, AS DEPARTMENT AWARE, DONORS, TO INCLUDE THE EEC, ARE NOT STINTING ON ASSISTANCE TO BOTSWANA. FACT THAT BOTSWANA IS WEATHERING THE CRISIS IS DUE IN LARGE MEASURE TO GOB'S CONSERVATIVE FINANCIAL PHILOSOPHY AND TO DONOR ASSISTANCE.

5. TAX REFORM ON MINING CAPITAL EXPENDITURE AND MASIRE'S REMARKS (SEE PARA 2.I.) WERE WELCOMED HERE AS INDICATION THAT GOB WILL BE MORE REASONABLE IN COMING TO TERMS WITH LARGE MINING COMPANIES WHICH WOULD INVEST IN BOTSWANA. NORLAND

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